EXHIBIT H

FINANCIAL STATEMENT TREND ANALYSIS

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Trend analysis is a key to recognizing potential problems of a borrower. This is important during the initial review of a loan application, as well as part of on-going monitoring of a loan that has already been disbursed. Sound companies and weak ones may have displayed some of the same trends, however, it is a pattern of many negative trends that indicates a potential problem that needs to evaluated further.

Trend analysis involves spreading the financial statements and comparing similar operating periods (i.e. year to year). This comparative analysis allows the reviewer to identify both positive and negative trends.

Once a pattern of negative trends are identified further action should be taken. For a potential loan, additional information or a detailed explanation should be obtained. The trends should be weighed carefully in making or rejecting the loan. For loans that have already been made, a pattern of negative trends requires fast action. Current financial information may indicate a problem that will enable the reviewer time to react.

The following is a general discussion of some trends to look for in the review of financial statements:

- Decreasing cash position: This could be a lower level of cash or cash as a percentage of total assets. Look for changes in deposit activity, draws on uncollected funds, declining average monthly balances, etc.

- Slowdown in receivables collection: Could be an indication of distractions in the business, neglect, changes in collection policies, etc.

- Significant increases in accounts receivable: This could be in the dollar amount, percentage of assets or in accounts receivable to a single customer (need aging of accounts receivable to determine).

- Rising inventories: Either in the dollar amount or as a percentage of total assets. This may be an indication of a need to liquidate excessive or obsolete inventory, lack of attention to purchasing, slowing of sales, etc.

- Slowdown in inventory turnover: This could indicate a slowdown in sales, overbuying, production problems, and/or problems in the purchasing policies of the business.

- Changes in sales terms/sales policies: Look for changes from cash sales to installment sales, leasing instead of selling, and other similar changes.

- A decline in liquid assets: This could be a dollar decline or a decline in current assets (cash, accounts receivable, etc.) to total assets. As current assets decline or become less liquid, a business may experience difficulties meeting current liabilities.

- Changes in the concentration of fixed assets: Both declining and rising concentrations of fixed assets should be reviewed. A decline could indicate that funds needed to purchase fixed assets are being used for other purposes. This can be a significant problem if a business is not replacing, renovating or rehabilitating fixed assets as needed. A rise in fixed assets could be a problem when done at the expense of other assets/operational need. Levels of fixed assets should be compared to both historical financial statements and industry averages.

- Revaluation of assets: A revaluation of assets on the financial statements needs to be justified. If not justified, it impacts the financial picture of the company.

- Changes in liens of assets: Evidence of new subordinated debt should be a concern. It could indicate a deteriorating financial situation.

- A high or increasing concentration of assets in intangibles: The value of intangible assets is difficult to establish. Typically, intangible assets are eliminated from the financial review.

- Increases in current debt: A rise that is tied to a concentration in trade debt or no corresponding increase in assets should be viewed as a risk factor.

- Increases in long-term debt: Increases in long term debt must be reviewed carefully. If repayment is dependent on higher than historical or reasonable projected sales, a concern should be raised.

- An increase or major gap between gross and net sales: result or lower quality, production problems, out-of-date product lines and other related production and/or market factors.

- An increase in debt to capital: This is of particular concern when the current ratio is low. Undercapitalized firms will typically exhibit poor working capital conditions.

- Increase in cost of goods sold: An increase may indicated problems in the operation or other expense areas.

- Decline in profits compared to sales: The decline may be a result of poor cost controls, management problems, failure to pass on increases in costs, etc.

- Increases in bad debt: An increase as a percentage of sales usually indicates poor collection procedures, management problems and/or deterioration of the quality of the customer.

- Assets rising faster than sales: This is an indication that increased assets are not creating increases in sales.

- Assets rising faster than profits: Assets are investments designed to create profits. Concerns should be raised when increased assets are not resulting in higher profits.

- Significant variations in other areas of the financial statements: Marked changes should always be examined!

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